

# Peking Rift With Hanoi Seen Growing Wider; Russ Blamed

Officials Told by Bitter China Regime North Vietnam Has Lost the Will to Fight, Follows Course to Disaster

CPYRGHT

BY ROBERT S. ELEGANT

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HONG KONG—Highly reliable sources revealed Monday that the division between Hanoi and Peking was rapidly growing wider, with a bitter Chinese regime privately informing its senior officials that North Vietnam had lost the will to fight and was cracking under Russian pressure.

As seen from Peking, Russian influence is now preponderant in Hanoi, while the Vietnamese are following a course which will lead to disaster. Reduction in Chinese material and arms support for Vietnam is now becoming a probability.

The Chinese have not officially or publicly expressed any opinion on the total bombing halt and the new phase of negotiations in Paris.

## President's Speech Reprinted

Instead, they have taken the unprecedented step of reprinting in full—pointedly without comment—both President Johnson's speech announcing the bombing halt and President Ho Chi Minh's response, which reaffirmed Hanoi's determination to fight on to "total victory."

But Western intelligence sources have just gained access to the contents of confidential position papers circulated for the information of senior Chinese officials. They reveal that the hard-line group around Chairman Mao Tse-tung is bitterly denouncing Hanoi's recent actions with arguments designed in part to shore up its own shaky internal position.

Senior cadres of the Chinese regime are being told that Hanoi has "lapsed into acute war-weariness." The North Vietnamese, according to the secret Chinese documents, are "totally controlled by the Soviet Union and are following the road of revisionism."

The language of the private briefings directly parallels the abuse heaped in the early 1960s upon Nikita S. Khrushchev and his followers—the authors of "modern

revisionism" which the fundamentalist Maoists hate.

The Sino-Soviet split shortly thereafter became a matter of public record—and a major influence, on the international political scene. It was accompanied by the cessation of Russian aid to China and the total withdrawal of Russian technicians.

## Hanoi Not Called 'Revisionist'

Though the parallel is striking, evidence is still insufficient to project a complete split between Hanoi and Peking. However, the Chinese do not, to say the least, call their friends "revisionists" — the fiercest term of opprobrium in their vocabulary.

The confidential Chinese analysis of Hanoi's position and attitudes is probably more significant for its revelation of Hanoi-Peking relations and the Maoists' own dilemma than of actual conditions in North Vietnam.

Hanoi has desperately attempted to maintain a delicate balance in its relations between the feuding Russians and Chinese. But Hanoi is unquestionably leaning toward Moscow, and Peking's disapproval of Ho Chi Minh's policies has become progressively more open and more intense since the beginning of 1968.

Maoist strategists condemned the Tet offensive as adventurism and publicly instructed the North Viet-

namese to revert to "protracted guerrilla warfare."

With the beginning of negotiations in Paris, Peking denounced Hanoi's policy as "capitulation and compromise."

Paradoxically, the Maoists are denouncing the North Vietnamese for following precisely the same strategy which won the Communists control of China. During their civil war against the Nationalists, the Chinese Communists were prepared to "alternate fighting and talking or do both simul-

taneously." That policy brought them victory.

The Maoists now, however, are committed to the concept of the "perpetual worldwide liberation struggle." They obviously fear that the example of their nearest Communist neighbors adopting a divergent strategy will further undermine the Maoist position within China.

The xenophobia of the small and faltering Maoist clique has now become so intense that it views any negotiation with the hated "imperialists" as a devil's trap.

A wide range of possibilities is opened by the probable imminence of a Hanoi-Peking split if the North Vietnamese persist in their present course—as they appear determined to do.

In the judgment of analysts in Hong Kong, it is all but certain that Peking has already put the Vietnamese on notice that they can expect no further substantial Chinese assistance if they find themselves at a disadvantage as a result of disregarding Chinese advice.

Moreover, the pragmatic group, now powerful in China, would like to reduce aid to North Vietnam to a minimum in order to conserve Chinese resources and to diminish the danger of a direct confrontation with the United States.

CPYRGHT  
MEASURES TO STRENGTHEN SOVIET MILITIA ADOPTED

The CPSU Central Committee and the USSR Council of Ministers have recently reviewed the question of steps to further strengthen the Soviet Militia. A resolution adopted on this question notes that in recent years important steps have been taken by the party and government to strengthen the struggle against crime, to increase the public's role in this matter, and to improve the activity of the militia, prosecutors' offices, and the courts. The implementation of these measures has strengthened legal procedures in many cities and regions. At the same time the interests of building communism require further attention by party, soviet, public organizations and administrative organs to questions concerned with reinforcing public order.

The organs of the Soviet Militia play an important role in maintaining law and order and legality and protecting the interests of the socialist state, creative labor, and the legal rights of Soviet citizens against criminal infringements. The honorable and noble labor of the Soviet Militia is highly regarded in socialist society; its activities affect many people's interests, and they occur in constant dealings with the population. For all their strictness and decisiveness, the militia's actions must always be just and understood by the broad working masses. Militia workers have an obligation to strengthen and expand their ties with public organizations and workers collectives and to rely on their help in forestalling any violation of public order. The resolution draws attention to the necessity for eliminating shortcomings that occur in the militia's work and provides for concrete measures aimed at the creation of militia organs having the proper conditions for successful fulfillment of their responsible tasks.

The union republic Communist Party central committees, party kraykoms and obkoms, the union republic councils of ministers, and kray and oblast ispolkoms of the soviets of working peoples deputies have been ordered to strengthen their control over militia organs and urgently increase their role in implementing party and government decisions concerned with strengthening the struggle against crime. While increasing their control over the militia, party and soviet organs should also display constant concern for strengthening the militia's authority.

In the interests of further strengthening the cadres of the militia organs and expanding ties between the militia and the people, provision is made for recruiting into militia work the best workers and trained and competent people who are capable, through their political and business qualities, of successfully fulfilling the tasks of the militia organs. A procedure will be established for recruitment into city and regional militia organs, as a rule, on recommendation of workers collectives through discussion of those recommended at meetings of party, trade union and, Komsomol organizations. The militia organs are obliged to inform the public in enterprises, establishments, and organizations of the work done in the militia by those whom these groups have recommended.

It has been deemed necessary to widen the practice of speeches by militia workers among the population, and to consult directly with citizens at enterprises, establishments, and homes on questions of interest to them. The militia organs should strengthen their ties with the voluntary peoples squads and more widely recruit, on a public voluntary basis at militia organs and through consultation with citizens, those persons who are qualified lawyers, teachers, journalists and representatives of public organizations.

The local soviets and their ispolkoms have been ordered to improve their control over the work of militia organs, systematically to review their activities at soviet session and ispolkom meetings, and to help militia organs complete economic, cultural, and everyday tasks. It is planned to increase the role of permanent commissions of local soviets in effecting control and rendering assistance to militia organs in order to strengthen their ties with workers collectives and improve organizational work to

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forestall violations of the law. A procedure has been established by which the militiamen authorized for any particular sector are confirmed by ispolkoms of city and rayon soviets.

It is recommended that editorial offices of newspapers and magazines, radio, television, and publishing houses give comprehensive coverage to the responsible and honorable work of the militia and its inseparable ties with the people, so as to help strengthen in every way the militia's authority among the workers.

Because the title USSR Ministry for the Preservation of Public Order and its local organs does not reflect all the functions which they fulfill within the system of Soviet Government organs, it has been deemed necessary to rename this ministry the USSR Ministry of Internal Affairs. The ministries for the preservation of public order in union and autonomous republics are being renamed union and autonomous republic ministries of internal affairs, and the administrations of the kray or oblispolkoms for the preservation of public order as administrations of the kray or oblispolkoms for internal affairs.

The USSR Ministry of Internal Affairs and its organs have the task of further improving their work on the basis of very strict observance of socialist legality. Exemplary fulfillment of service duty, high discipline and culture in work, and in a deep understanding by every worker of his role in the cause of educating the Soviet people in a spirit of conscious observance of the laws and rules of socialist society are demanded of the personnel of the USSR MVD.

The attention of the USSR Ministry of Internal Affairs, union republic Communist Party central committees, and the party's kraykoms, obkoms, gorkoms, and raykoms is drawn to the necessity for strengthening political-educational work among militia personnel. It is envisaged that there will be improvement in the teaching and training of special for the militia organs. The resolution specifies numerous steps concerned with equipping the militia with technical means and improving the material provision for militia workers and other organs of the USSR Ministry of Internal Affairs.

The CPSU Central Committee and the USSR Council of Ministers have expressed their conviction that party, soviet, trade union, and Komsomol organizations and the USSR Ministry of Internal Affairs and its local organs will significantly strengthen public order in our country by implementing the outlined measures.

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Dec 68

Dec 68

Western Hemisphere

Latin America Advances Its Economic Cooperation  
Dispelling the Myth of Che Guevara  
Student Disturbances in Mexico

Aug 68

Sept 68

Oct 68

IS COMMUNIST CHINA A MAJOR  
WORLD ECONOMIC POWER?

1. Since the Communists overran the China mainland in 1949, economists in the outside world have wrangled over what Chairman MAO Tse-tung and his revolutionary army would be able to do about the backward economy they had so abruptly inherited. Opinions and estimates on the problem have been formulated with precious little to go on: long-range guessing from Hong Kong with the help of travelers' tales, heavily censored reports from a few foreign correspondents, cullings from Chinese newspapers and periodicals, and letter and broadcast intercepts. Scattered statistics have been available, since many of China's commercial partners have issued regular trade figures. China herself has published no comprehensive statistics on the Chinese economy since 1959. Understandably, then, the estimates on the state of China's economy have varied widely, from claims that China is too weak and disordered to feed, clothe and house her own burgeoning population, to alarmist forecasts that Peking will soon create economic havoc in Asia with price-cutting and dumping on world markets.

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The actual strength of Communist China as a world economic force has always been difficult to assess. The difficulty arises in part from distracting psychological factors, such as the world's long-nourished apprehensions about the "yellow peril," the awesome facts of China's skyrocketing population, the truculence of her foreign policy, and the intriguing possibility that one of the hare-brained schemes, such as the back yard iron smelters, might actually work.

It is impossible to use traditional yardsticks in measuring and assessing this most truly inaccessible area of the globe. Certain statistics are available, although these must be laboriously gathered as Communist China has not published comprehensive data on her economy for more than a decade, nor virtually any statistics at all since the beginning of the Cultural Revolution. In the past, China watchers have had the tales of foreign travelers and newsmen visiting China -- but they are now largely banned. China experts have had China's newspapers and periodicals to scan -- but these are now almost totally unavailable to foreign subscribers. Still available is the NCNA (New China News Agency), but it continues to offer a diet of polemics in lieu of facts. Moreover China's few allies are probably no better informed, and certainly are little more forthcoming, than she about her internal business.

However, before the recent clamp-down on visitors, subscriptions, and foreign correspondents, Far East scholars and economists were able to piece together a reasonably comprehensive picture of China's economy. Their consensus is -- ignoring for the moment her long-range potential -- that today China is more a poorhouse than a world economic power. They base their judgment on the following.

Industrial Production

Industrial development in China has been a start-and-stop operation, hamstrung from the beginning by political considerations and irrationalities. Some gains have been made, but they are relatively small and have been achieved at the expense of other sectors of the economy. And even now, 19 years after taking power, the basic products are at a minimal level. Take, for example, steel output, which the experts estimate at around 12 million tons annually. This is roughly a fifth of that of Japan, which has only a fraction of the area and population of China. Take oil: new fields have been tapped in the Northwest and China is believed to have arrived at a degree of self-sufficiency in petroleum. But what are China's needs? Very modest, indeed, in comparison with her neighbors in the Far East, whose yearly consumption requirements per capita are 88-100 liters compared to China's 16-20 liters. This can be compared with Japan at 520 liters, the USSR at 800 liters and the U.S. at 3600 liters per capita.

Whatever the industry, China has borrowed her technology almost entirely from abroad, often in the form of whole plants, but this appears to have accomplished little for China's economy or China's "modern man." Total annual output is so low that Peking refuses to publish statistics. Per capita income, which China also refuses to divulge, has been estimated by the World Bank at \$95 for 1966 -- well below that of such countries as Thailand, Cambodia and Ceylon. In contrast, Nationalist China's per capita income for 1966 was \$189 (and \$209 for 1967).

China's transportation is in a fearful state by modern standards. And the difficulties inherent in the primitive nature of the system, in which most goods and people still move by foot, cart and canal, have been compounded by the Cultural Revolution. Red Guards, disgruntled workers, and peasants have committed frequent acts of idle mischief and actual sabotage against the relatively few rail lines which exist, causing breakdowns, blockages of shipments and, in some instances, complete disruption of an already erratic service. Other inhibiting factors in China's rail transportation are obsolete rolling stock, reliance on steam engines rather than Diesels, too few miles of double track for the rolling stock that does exist, and the fact that no new lines have been laid for 10 years. (China, of course, has been very busy laying tracks -- or proposing to -- in other countries, such as Laos, North Vietnam, and Tanzania.)

China's enormous labor force has presented many problems for the Communist regime since the birth of the Cultural Revolution. Factional struggles have occurred regularly in factories. Regime-inspired wage restrictions, bans on distribution of collectively-owned funds, and cancellations of year-end bonuses have resulted in reactions ranging from outspoken dissatisfaction to fighting on factory grounds, destruction of machinery and, ultimately, prolonged strikes which badly crippled the plants where they occurred. In April 1968, some strikers in Canton not only refused to obey the orders of the Canton Revolutionary Committee to end their strike, but attacked those who were willing to go back to work.

The foregoing is only the top of the iceberg, so to speak, but experts conclude that what they can observe about the industrial sector of the economy must reflect in large degree that part they cannot see. One aspect of the economy which can more readily be seen is foreign trade, which has been seriously affected by disorders in China's industry.

#### Foreign Trade

China's foreign trade was suffering from chronic ailments even before the onset of the Cultural Revolution. As a result directly traceable to the Cultural Revolution, China's foreign trade will decline in 1968 for the second straight year and may (according to preliminary trade figures) even decline more than the eight percent drop registered in 1967. China has been attempting to improve her trade balance by

cutting back imports from the free world and boosting exports appreciably. This should reduce her Western trade deficit, which totalled \$80 million last year. But the deed is easier in theory than in actuality. One of the major marketplaces for western purchases of Chinese goods is the Canton Trade Fair, but the volume of trade at the Autumn Fair (15 October-15 November 1968) declined approximately 20 percent below last year's level. Although the fair was well attended, a number of buyers left without placing orders because prices were "unrealistic," because one-third of the orders placed at the Canton Spring Trade Fair (May 1968) had not yet been filled, and because many of the boasted "30,000 different items on show" proved to be just that, and not for export at all.

Communist customers also attend China's trade fairs and they do not appear to enjoy any discriminatory advantages over their non-Communist competitors. All have equal difficulties with currency exchange; all are equally subject to propaganda broadsides on the joys of MAO-style Communism; and all suffer delays in shipment and risk breakage or loss. In fact, the official People's Insurance Company of China has just announced to all its customers its intention to renege on its commitments to insure risks of "Strikes, Riots, and Civil Commotion." Since China demands that all nations doing business with her carry insurance with the People's Insurance Company of China, this, in effect, means that all buyers wanting much-needed insurance against strikes, riots and civil disorders will find it necessary to carry two insurance policies to protect the same merchandise.

The overall volume of China's trade with 18 of her non-Communist trading partners fell by 17.8 percent in the first six months of 1968. According to the Japan External Trade Organization, which assembled the trade figures, Chinese exports fell by 13.5 percent and imports by 22.1 during that period. China's trade with Communist countries has also suffered reverses, most dramatic of which has been the drop in trade with the USSR. According to the UN monthly bulletin of statistics for July 1968, Soviet imports from China declined from 129 million rubles' worth in 1966 to 51 million in 1967, while Chinese imports from the USSR fell from 158 million rubles in 1966 to 45 million in 1967. Sino-Soviet trade, then, has fallen to five percent of its peak level in 1959. According to TASS, among the factors contributing to the trade decline have been the detention of Soviet vessels in Chinese ports (the Zagorsk in December 1966, the Svirsk in August 1967, and the Komsomolets Ukrainy in March 1968) and the harassment of Soviet trade officials by Red Guards in 1967. China's trade with Eastern Europe will also be below last year's level, in part because of disruptions in trade as a result of the Czechoslovak crisis. China's reported cutback in aid to Hanoi, which has been viewed as an ideological reproof to Hanoi for going to the Paris peace talks, may have been as much a matter of necessity as of ideology.

Agricultural Production

Experts find it more difficult to ascertain facts about China's agriculture in assessing the overall economic picture in this rigidly closed and badly disorganized society. Eight out of 10 Chinese live in farm villages which are spread out over China's sprawling land mass. The regime's attempt to keep these remote farm areas in line has been particularly difficult following the concessions made to the peasants in the recession following the disaster of the Great Leap Forward experiment. It requires little imagination to picture the reaction of a man accustomed to breeding his own fish in his own pond, or growing and marketing his own crops, or raising his own livestock when these "privileges" are suddenly withdrawn. Little wonder that the peasant farmer has claimed inability to meet the state-determined quota systems for grain and livestock; little wonder, too, at his lack of enthusiasm for participation in collective farm chores.

Add to this very personal equation, the chronic material shortcomings of Chinese Communist-style agriculture, which have been sharpened by the Cultural Revolution: fertilizer and pesticide shortages intensified by breakdowns in delivery systems; replacement of archaic farm implements postponed by industrial strikes; food shortages in the communes sharpened by the arrival of unwilling and unseasoned city dwellers (students, intellectuals, administrative personnel) sent by the regime to offer unwanted assistance in the harvest. Other relevant factors include the disintegration of the rural bureaucracy which shed or lost its responsibilities in the past two years; the basic Chinese reluctance to divert scarce funds to costly, large-scale land reclamation projects and to adopt the land management methods which have proved effective in the free world; and, finally, the calamitous weather the past two growing seasons in China -- torrential rains and flooding in southern China, drought in the wheat-growing regions north of the Yangtse River, and frost in the northernmost rice-growing areas. The foregoing combination -- even as a long-distance view over China's wall -- is sufficiently discouraging to make the experts extremely dubious about glowing Chinese Communist claims of "bumper crops in 1968."

Other Problems Connected with the Growth of China's Economy

There are other problems -- some of which affect the growth of the economy and others of which are caused by its shortcomings -- that indicate the economy is in difficulty. Some of these problems find their roots in the Cultural Revolution, others are chronic and have merely been intensified by the Cultural Revolution. Food has always been in short supply in Communist China; as a result of the Cultural Revolution it has been particularly scarce. Before travelers were virtually forbidden to enter China, they had reported such incidents as: famine in sections of Kwangtung Province; peasants looting foodstores; 500 hungry peasants stopping a freight train (on the way to Hankow) to seize large quantities

of food grain; hungry farmers rioting against shipments of rice out of China; and posters prepared by city dwellers accusing the regime of starving the Chinese people. Also reported were shortages of matches, fish, peanut oil, meat, cotton cloth, medicine, soap, cigarettes, kerosene, and fuel, particularly coal. Bus service and telegraph and postal service are reportedly erratic. The black market is flourishing and farmers are accused of falsifying commune production reports and secretly distributing grain instead of turning it over to the state.

#### Population Growth

China faces at least one economic problem that has little to do with the Cultural Revolution, that of an awesome population growth. Marxian principles claim that people (labor power) are the basic source of a nation's wealth; therefore, there cannot be too many people but only exploitative economic systems which create the impression of overpopulation. China's leaders have vacillated in their interpretation of Marx on population growth, depending on the state of China's economy. However, is no question that China has too many people when she is no longer able to grow enough food to support the population and when her trade is reaching a serious imbalance as she attempts to import enough food to feed her hungry 750 million. When China's masters return to all-out support for the widespread practice of birth control -- as it is generally predicted they will be forced to do -- China will have proved once more abstract ideology is a poor guide towards a successful economy.

To return to the initial question -- is Communist China a major world economic power, or is it a poorhouse? -- for the immediate future, and viewing the disasters of the Cultural Revolution, the burgeoning population, the sparse agricultural reserves, the disrupted and generally archaic state of most of her transportation and industry and her unfavorable trade balances, the conclusion is inescapable that the economic experts are probably correct: the Communist Chinese giant is closer to being a poorhouse than a world power.

Reference: Communist China's Economic Growth and Foreign Trade, by Alexander Eckstein, New York: McGraw-Hill, 1968.

September 1968

Following are examples of conflicting reports on Chinese Communist harvest prospects for 1968. Local provincial authorities issue their on-the-scene view of local situations while Peking Radio and the New China News Agency (NCNA) view the provincial picture through their long-range rose-colored binoculars:

Anhwei

NCNA on June 22 claimed that grain collection in the province exceeded the figure at the same date in 1967 by 55.6. Hofei Radio broadcast an urgent call on 23 July, by which time the north of the province was badly flooded, to tackle the Huai River floods which were hitting transport and threatening the summer harvest.

Nevertheless NCNA reported on August 19 that a "bumper early rice crop" had just been harvested in South Anhwei - one of the main early rice growing areas of China.

Honan

NCNA on June 21 reported the wheat crop to be "quite good." Cheng-chow Radio issued a series of directives between July 4-9 on combating drought conditions. On July 17 it reported heavy rain in the Hsinyang district of Honan which had necessitated conferences to institute measures to deal with floods in that part of Honan.

Hopei

Wheat production was reported to be "quite good" by NCNA on 21 June, although Tientsin Radio had broadcast on 12 June an urgent appeal for increased efforts at manuring the fields to speed growth - almost certainly a sign that drought had so far delayed it. Peking Radio on July 6, reported heavy rainfall starting July 5 was causing flooding.

Hunan

An NCNA report on June 21, 1968 of "rich harvests" contrasted with a Changsha Radio report of June 19 of rain all over the province with rising rivers and more rain expected. However, Peking Radio, August 18, spoke of a "good" harvest in Hunan.

Hupei

On June 12 Peking Home Service reported a "bumper harvest" of summer crops, including wheat but not rice, with uniformly high yields. However, the rice crop being affected by the floods was mentioned frequently in Wuhan broadcasts from July 9 to 30.

Kiangsi

Floods affected some areas but early rice was generally said to be growing well in July (Nanchang Radio, July 9) and a "bumper" harvest was expected. On July 23, however, Nanchang reported that "barring

extraordinary calamities there was certain to be a 'rich' harvest." An NCNA round-up of August 19 claimed that Kiangsi had reaped "a bumper early rice crop."

#### Kirin

Kirin had suffered a drought "seldom equalled in the past" (Chang-chun Radio, August 7) and no harvest claims have been noted.

#### Kwangsi

Reports of serious floods in Kwangsi in July were followed by a report by Kwangsi Radio on August 21, surveying the general economic situation in the region, claimed that in the first half of 1968 sabatoage plots had been smashed, natural calamities had been overcome and that certain areas had achieved "bumper" harvests.

#### Kwangtung

Reports in mid-June of the damage being caused by the "worst floods in the history of Kwangtung" were confirmed by Canton Radio but early rice was maturing in the Pearl River basin according to NCNA on July 17 and on July 27. On August 18 Peking claimed a "good" harvest for the province.

#### Liaoning

A Shenyang report on August 3 on fighting drought and insect pests suggested that harvest prospects in the province are poor. NCNA has not reported on Liaoning's prospects.

#### Shansi

NCNA reported on June 15, a "bumper" harvest of wheat despite serious frost earlier in the year.

#### Shantung

A "bumper" harvest of wheat was in sight in mid-June (Nanking Radio 17 June). Although Shantung suffered both flood and drought conditions, "good" and "rich" wheat harvests were on record in some areas. (Tsian, June 18).

#### Yunnan

Kunming reported on June 22 that all sorts of natural calamities had been overcome, and that in one county a "bumper" harvest of grain had been reaped which was 20% better than last year.

# Peking's Foreign Trade

Decline Caused by Mixing Politics With Commerce

CPYRGHT

By CHU SAITO

The volume of foreign trade conducted by Communist China at the Canton autumn trade fair from Oct. 15 to Nov. 15 is reported to have shown a decline of approximately 20 per cent below last year's level.

During the first years of the Communist regime, the annual trade volume rose unsteadily to a peak of \$4,265 million in 1959. The disruption caused by the Great Leap Forward and the antirightist campaigns which followed, however, caused a lowering of the annual volume, which fell to a low of \$2,770 million for 1963. Recovery then was rapid, and a new high of \$4,295 million was attained in 1966.

Unfortunately, the great proletarian cultural revolution was launched in the middle of that year. When industrial workers—and, to lesser extents, the peasants—became embroiled in the political upheaval, a down trend was inevitable, and in fact phenomenal.

The year 1967 was favored by an exceptionally good harvest, which normally would have provided additional capital for expanded trade. This notwithstanding, the volume actually decreased to \$4,180 million.

## Output Decline

This year, as a result of bad weather, a decline in agricultural output appears inevitable. Moreover, the factory strikes and transportation tie-ups, which were severe in late 1967 and early 1968, have brought about a 15 per cent lowering of industrial production. This naturally has resulted in the even lower quantity and quality of goods offered for export by Communist China at the Canton fair this year. The tendency toward delayed and uncertain deliveries, already apparent at the Canton fair last spring, also has had a further depressing effect on

In itself, the present down trend in the Chinese Communist national economy is not particularly significant, for the country has demonstrated, previously, the ability to halt and reverse such trends when they were caused solely by the disruption of internal political campaigns. Recent changes in Peking's general attitude toward all foreign countries and in the methods of dealing with foreigners, however, are likely to prove detrimental to Red China's foreign trade for a long time to come.

## Xenophobia

The xenophobia, released by the great proletarian cultural revolution and permitted to be violently expressed, is the obvious example. The attacks on foreign embassies and diplomatic personnel and the truculence with which the Chinese Communists conducted their foreign relations have antagonized almost all the countries of the world. The effect might have been catastrophic to Red China's foreign trade, were it not for the irresistible allurements of the mainland's enormous potential market offers to all mercantile nations—and especially those anxious to expand their industrial economies.

Britain and Hongkong, West Germany, France and Italy, besides Japan, come within this category, and have actually been competing with each other for the mainland market. Nevertheless, it is precisely these countries that have suffered the most from Red Chinese abuse.

What our businessmen have suffered at the hands of the Chinese Communists is too well known to be discussed here. The experience of the West European countries, however, is less known and offers additional side lights on Chinese Communist business practice.

In late 1966, for example, the British firm of Vickers-Zimmer signed a £2,200,000 contract with Peking to supply the materials and ex-

a synthetic fiber plant in Lanchow.

The British supervisory staff consisted of five men. Last September, two of the men—George Watt and Peter Deckart—were arrested on the usual vague charges of "spying."

Deckart was subsequently expelled from Communist China. But, Watt was held under house arrest for six months, and finally sentenced to three years in prison.

Meanwhile, all the materials for the plant were delivered. The Chinese Communists now canceled the contract, claiming that the British firm failed to comply with the agreement to "supply the best, most modern design."

In addition, the Chinese Communists are demanding £650,000 in "compensation."

What the compensation is for has not been made clear. But, until the matter is settled, the Chinese Communists are holding Watt, and they are denying exit visas to the other three British technicians.

## Detrimental Effect

Another illustrative example concerns Red China's trade balance with Canada. Because of large orders for wheat from Canada, Red China's sales to Canada were only 11 per cent of the value of her imports from that country. Nevertheless, it had a good chance to improve the balance by participating in the British Columbia international trade fair last year. Peking, however, demanded that Ottawa cancel an invitation extended to Taiwan, and when the Canadians refused, the Chinese Communists refused to attend the fair.

Obviously, Communist China's long-term industrial prospects depend largely on foreign assistance, both material and professional. Equally obvious is the fact that foreign firms are now beginning to be less enthusiastic about orders from Communist China.

This, more than the periodic political upheavals, is likely to prove detrimental to the country's foreign trade in the





ASIAN ANALYST

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## SPRING FAIR AT CANTON

THE SPRING Canton Trade Fair, which ended on May 15, proved a disappointment both to the Chinese and to the foreign businessmen who went there expecting to negotiate trade deals. It was far from being "a testimony to the great victory achieved in the great proletarian cultural revolution", claimed by *New China News Agency (NCNA)* on May 17, 1968.

Merchants from many foreign cities, including Singapore, Tokyo, Hamburg and Hongkong, read with interest that there were "30,000 different items on show", including "70 products" never before seen in Canton (*NCNA*, April 15). But they discovered that display did not necessarily mean "for export," as many of the items were not for sale, including a new make of Chinese "mini"-type car (although a very limited number of Chinese-made washing machines and refrigerators were offered for the first time). Foreign enquiries for supplies of foodstuffs, some chemical and pharmaceutical products, silk, bristles, skins, minerals and ores (such as tungsten, antimony and mercury) could not be met.

Many traders attended to enquire about the failure of the Chinese to deliver goods ordered at the autumn fair in 1967; it was estimated by several different merchants that about one third of the orders placed at that fair have yet to be fulfilled. Some complained that they are still awaiting the delivery of goods ordered a year ago at the 1967 spring fair. In the light of this experience, most traders tried to pin down the Chinese exporters to firm delivery dates for the goods they were then ordering; but their efforts were far from successful. The Chinese admitted that there would be delivery delays varying from an average of four months to as long as nine months. They refused to quote any definite dates to buyers of some products, including ceramics and rejected all orders for delivery in 1969 and after.

Devaluation of sterling and the threat to the franc during the French crisis caused the Chinese to be reluctant to deal in sterling, US dollars and, for a short time, French francs and to concentrate instead on Swiss francs. However, they eventually decided to continue to accept dealings in French francs and in limited quantities of sterling. But all contracts signed at the fair had to include a new clause protecting the Chinese exporters against further devaluations. The same anxiety was reflected in the price increases involving many commodities. Many businessmen, who have made successful deals at previous fairs, came away this year having for the first time failed to do any business; they found it uneconomic in the face of price increases amounting to as much as 25 per cent for some items, compared with prices at the autumn, 1967 fair.

The volume of trade at the fair declined. The Japanese *Kyodo News Service*, for example, stated on May 16 that despite large Chinese purchases of steel and fertilisers from Japan, the total value of Sino-Japanese export-import deals at this fair fell short of the amounts reached at the two previous fairs in 1967. The 1968 deals amounted only to \$80 million as compared with

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the total of \$120 million achieved at the 1967 Canton Fair, adding the \$40 million worth of fertilisers sold by Japanese "friendly firms" in individual deals in Peking, the actual figure of Sino-Japanese trade would still be down on that of the previous year. Since the pattern of Chinese trade over the past years has shown a steady increase in that with Japan, this decline clearly reflects the general downward trend in 1968 which has affected all nations dealing with China.

#### Food shortage

The atmosphere at the fair was slightly better than during the two 1967 fairs. The compulsory "Mao-study" periods were shorter, there were no Red Guards to demonstrate or interrupt the business deals and the presence of troops at the Fair Building and at strategic points, as well as on patrol in the city, ensured that the control which had been re-established in Canton for the period of the fair, was maintained. The only exception was a demonstration in support of American negroes which took place on April 17.

Visitors reported that the city was suffering power-cuts and shortages of fuel. They noted, as they travelled between their hotels and the fair, that food was scarce, especially rice and meat; they also saw that some of the factories and workshops they passed were inactive. Most of the posters which had disfigured the city in 1967 had been removed, but one or two were seen to complain that the authorities were adopting a wrong attitude to the visiting traders by providing too high a standard of living, and treating them in an unrevolutionary manner by conducting over-polite negotiations. Some of the trade officials were regarded as laying themselves open to the charge of being pro-imperialist and pro-capitalist.

Some visitors were told that Canton factory workers had been threatened with dismissal if they failed to produce in time goods urgently needed for display at the fair. Several traders reported having heard that many Cantonese workers were on strike in protest against bad living and working conditions and that they were aware that by stopping production they were sabotaging the fair. During April, visitors stated that many arrests had been made in Canton as part of the tighter security measures.

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MAINICHI  
22 November 1968

## Farm Labor For 'Intellectual' Doctors

HONG KONG (A-ANS)—A number of doctors and nurses in Canton have been drafted to rural areas to assist farmers in their work as part of the current re-education of "intellectuals" ordered by Mao Tse-tung, it is learnt here.

About half the staff of the Canton Second People's Hospital are among those drafted. Before being bundled off to

their destinations, medical staffs were told they must expect to be rewarded in work points only for the farm work they do. They will not receive anything for any medical duties they may be called upon to perform.

Meanwhile, hospital staffs that have not been sent away for labor are required to attend nightly Mao study sessions organized by workers' propaganda teams.

First reports received on how the "intellectuals" are settling down to farming suggest that they are far from welcome in the communes. Most of them are totally inexperienced in farm work, and they have placed an added strain on the communes which have to provide food supplies.

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FAR EASTERN ECONOMIC REVIEW  
13 October 1968

## PETROLEUM

### The Reddest Black Gold

BY COLINA MACDOUGALL

NEWS from London says the Chinese are buying 100,000 tons of industrial fuel oil from Egypt; Hongkong's imports of petroleum products from China dropped by 30% this year; ships calling at Dairen, Shanghai, Tsingtao and Canton report shortages of marine fuel oil and a decline in quality. These are indicators of serious trouble in China's nascent oil industry. The near-blackout on petroleum news within China itself tends to confirm the difficulties. Granted that industry as a whole has not figured much in Chinese propaganda since the Cultural Revolution got going, it is still rather surprising that the oil sector, which was one of China's genuine success stories, should have sunk from view almost without trace. Most striking is the fact that Taching, China's new oilfield astride the Harbin-Tsitsihar railway in Heilungkiang province, which used to be held up as a politico-industrial model for the whole of China, has been blanketed in a silence which resounds deafeningly in the ears of China-watchers accustomed to reading about its excellence every other week. Since the beginning of 1967, Taching has rated only a handful of official mentions, and these scarcely note its former political importance.

But the current motto in Peking is "grasp revolution and boost production" and in keeping with that a crop of stories advertising production successes blossomed in the Chinese press to greet the National Day. A couple of these dealt with oil, summing up the latest situation in the vague terms now customary among the Chinese. Interestingly, the percentage figures (no absolute ones have been published since the end of the fifties) show unmistakably how low production fell last winter; crude oil output during August this year, the Chinese have claimed, was 34% above last January's, and refined products were up 43%. This confirms what is known of shortages around the turn of the year, reported unofficially from Kwangtung and implied in the holding of petroleum conservation conferences in a number of provinces. Output this year so far is said to have surpassed unspecified State targets. Peking has also said that output in "some" oilfields rose 40% in August, compared with the period before

the Cultural Revolution; this is hard to believe but could refer to some field hitherto not much exploited, or, as oil experts say is possible, to some simple operation like turning on another tap at a well already in production.

The new refining claims are more puzzling. More gasoline, kerosene, diesel oil and paraffin were produced, the Chinese say, in the first eight months of 1968 compared to the corresponding period of the "record output year" of 1967. It would be no surprise if 1968 production was above 1967, but it is stretching credulity a bit to believe that 1967 broke any industrial records at all except for unruly behaviour. Unless the Chinese had a stockpile of crude, refined output could hardly have gone up without a rise in crude production, and what we know of activities in 1967, that seems very unlikely. Taching was reported in posters in 1967 to have stopped production at many wells and Chou En-lai himself is said to have criticised its workers on two occasions in January 1967 and again in January 1968 for abandoning their jobs in favour of making revolution. Japanese reports in July and August 1967 quoted posters in Peking as saying that production at Taching had stopped because of clashes between revolutionaries and workers. The Japanese also reported posters which said that oil deliveries had been delayed owing to fights among transport workers — a hint that refineries may have been short of crude.

China's other major oilfields, Karamai and Yumen, in the far west, have not been specifically mentioned as the scenes of factional fighting, but the territories in which they lie — Sinkiang and Kansu — have both seen turmoil. One can hardly escape the conclusion that output of crude fell last year (one estimate by observers in Hongkong puts the drop as high as 10%-15%), and presumably, therefore, of refined products. There is no information at all about China's other fields; Tsaidam in Chinghai, Nanchung in Szechuan, Shengli in Shantung, have not been mentioned, and this normally means poor performance.

The refinery at Lanchow, one of China's biggest with an estimated capacity of 2.5 million tons annually, made a modest claim in September to have doubled its target in July this year for one kind of high-grade oil, and to have "over-fulfilled" its quota for a high-grade oil (unspecified) for a "fraternal country" — presumably North Vietnam, to which oil is despatched (in a British flag carrying tanker) from Dairen and Shanghai. Refining in general, however, last year and

this, must have been seriously affected by rail delays in getting crude from the fields to the refineries; most of it travels by rail, though some Taching oil is shipped by tanker from Dairen to the refinery at Shanghai. But China's seaports have been as much disturbed as the railways by Cultural Revolution activities, and Dairen has been affected seriously.

China's best year for oil up to now was 1966, when production reached an estimated 10 million tons. The bulk of this was believed to come from the three main oilfields of Taching, Karamai and Yumen, in about equal proportions, while the main refineries, Lanchow and Shanghai, probably processed about half China's total crude between them. The rest was spread over the smaller plants at Taching, Dairen, Tushantzu and the refineries at the shale oil centres of Fushun and Maoming. Not all Taching's crude is processed on the spot; much of it is transported elsewhere to refineries nearer to the end consumer. In this China seems to be adopting the modern, logical practice of transporting crude in bulk to refineries close to centres where the products will be used. This makes transport and packaging sense.

It is too early to guess what kind of a showing 1968 will make. It seems likely that the present claims that output is going up contain some truth but even if the statement that in July output was approaching the record is correct, there is no guarantee that China will be able to make up the leeway lost in the early part of the year. Official disapproval seems to have fallen on Taching, which almost singly was responsible for the substantial rise in output between 1963 and 1967. At Taching the workers, whatever the propaganda made out of them, seem to have been receiving twice the pay of other workers in China and substantial incentives and fringe benefits as well.

The eclipse of Taching as a model probably means that this attracted the eye of the keenest revolutionaries in Peking. Propaganda blasts all this year at the evils of material incentives suggest that even at Taching, so vital to the national economy, workers may lose their benefits. A reduction in material welfare, or even the risk of it, will surely have an effect on output, even if the more dramatic and disturbing revolutionary activities are given up.

*The recent upheavals of "the cultural revolution" have made it harder than ever to get reliable statistics on China. This economist reviews the available facts and concludes that "Beneath all the shouting and pushing, there is the unresolved problem of feeding and clothing the millions. . . . The cultural revolution has in the last two years moved to the issues of the people's livelihood. . . ."*

## Communist China: The Economy and the Revolution

By JAN S. PRYBYLA

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COMMUNIST CHINA has published only one statistical manual: a slim, retrospective volume entitled *Ten Great Years*, covering the years 1949–1958. The figures for 1949–1952 are not very reliable because of the modest state of statistical science in the country at that time. The data for 1953–1957 (the First Five-Year Plan period) are probably the best of the lot, but even here numerous technical difficulties arise. Figures for 1958 (the first year of the "great leap forward," 1958–1960) were so exaggerated and fanciful that even the Chinese later declared them to be totally misleading. No comprehensive statistics have been published since 1959. Since 1966, the information blackout has been complete. One could go so far as to say that the amount of quantified information emanating from Peking in the last three years would fit comfortably on a sizable postage stamp.

For a while (1961–1965) the Mainland press carried much interesting discussion about the economy. Here and there one could pick up a suggestive datum, a hint on what was going on in the fields of agriculture, industry and trade. After 1965, this type of reportage was replaced by inspirational articles extolling the thoughts of Chairman Mao Tse-tung. The language of these essays has become frozen by Maoist ritual. For a time, a study of the provincial press yielded some valuable information on leadership attitudes, since it was one of the principal media through which instructions from the center were relayed to local authorities. In 1967, the export of provincial newspapers was banned. The Communist party's theo-

retical organ *Hung Chi* (Red Flag) ceased publication on November 23, 1967. In 1967 and early 1968, Red Guard wall posters could be resorted to in order to gain some idea as to the progress of events, but this source more often than not was contradictory and sensationalist. In any event, curbs were put on foreign correspondents' jotting down items from this wall literature.

Businessmen and tourists supplied some news but, here again, the information was of limited value. Travel routes were at all times strictly controlled, exception being made for Communist sympathizers and others whose conclusions about China had been arrived at beforehand. Following the outbreak of the "cultural revolution," the number of foreign visitors in China declined sharply.

There is, therefore, a serious problem here. Although Western economists have been trained by Stalin's secrecy complex to deal with this sort of censorship, the thoroughness of the informational blackout is unparalleled in the history of any modern nation. The figures used in the present article are Western estimates—informed guesses—based on tidbits of news issuing from the Mainland.

### SOME GENERAL PRINCIPLES

A number of general principles about the Chinese economy should be kept in mind.

The designation, "planned economy," does not apply to China. Like the rest of Chinese society, the economy in the past 19 years has been run by a series of short-term expedients, typically assuming the form of mass campaigns. The only period which fits the designation of planning is 1953–1957. Commu-

in various ways, among which policy disagreements within the top leadership should certainly be included. The major stages of shifting policy were the rehabilitation period (1949-1952), the First Five-Year Plan (1953-1957), the liberal interlude (late 1956-1957), the great leap forward (1958-1960), the period of retrenchment and rebuilding (1961-1965), and the great proletarian cultural revolution (1966 to the present). Each stage contained a number of minor substages, some of them mutually contradictory. Each stage also revealed policy shifts from right to left and back again depending on whether emphasis was placed on economic calculation or ideological euphoria. The cultural revolution, for example, shows at least seven such swings in the revolutionary pendulum. To some extent, these movements are consciously directed by the leaders on the theory of alternating tension and relaxation. Increasingly, however, the swings appear to be spontaneous and uncontrollable.

Like other underdeveloped economies, the Chinese economy is not fully integrated. There is a considerable element of localism and local self-sufficiency in the mechanism. To some extent this is a legacy of the past which the Communists have tried to eradicate. On the other hand, not a few measures taken by the Communists since 1958 have tended to encourage local economic autonomy. The interesting point about this is that it enables the economy to withstand upheavals at the center, to keep on functioning locally in spite of confusion at the top.<sup>1</sup>

The Chinese economy is "aidless." It has never received any grants from abroad and the last long-term (Soviet) loan was received in 1954. China's external economic contacts are based on cash (mostly hard cash) payments and short-term credits for the purchase abroad of specified items. Two-thirds of the country's trade is presently carried on with "capitalist" powers.

At least since 1961, the Chinese economy has not been "Marxist-Leninist" in the Stalinist sense. In the U.S.S.R. and Eastern Europe the Stalinist economic priorities were—and to some extent still are—heavy industry, light industry, agriculture. China's official priorities after 1960 have been: agriculture, light industry, heavy industry. This departure from the orthodox pattern was largely dictated by the urgent need to feed and

In evaluating the performance of the Chinese economy one must constantly bear in mind the cultural gap between Western and Chinese conceptions of life. It is difficult enough to understand the workings of totalitarian systems when one has not been exposed to them directly and for considerable periods. It is even more difficult to grasp the elusive qualities of a totalitarian system imposed on a society whose values are very different from ours, and whose language loses more than the usual share of meaning in translation. There is no civil or criminal code in China today, nor are there any codes in other areas of law. The whole body of Chinese Communist law takes up just 600 pages of rather large print,<sup>2</sup> and most of the "laws" are, in fact, administrative decrees, many of them applying retrospectively. The General Code of Laws of the Ch'ing Dynasty made it a criminal offense to "do what you ought not to do." The Chinese, moreover, have a capacity for separating the public from the private face, so that noisy expressions of obeisance on the part of private individuals must at all times be viewed not only in the context of a system of fear but in the light of a special ethic which existed long before Mao and Marx.

#### AGRICULTURE

At the end of December, 1966, the cultural revolution was extended to economic life. Red Guards and Maoist workers' formations ("revolutionary rebels") were ordered to take over offices, factories and farms. At this juncture, the upheaval in the "superstructure" (politics and cultural life) invaded the "base" (the economy). Since that time, there have been several shifts to the left and right, but the important point is that the revolutionary turmoil is now common to both political and economic life and directly affects the growing of grain and the making of steel.<sup>3</sup>

<sup>1</sup> See Jan S. Prybyla, "Why Communist China's Economy Has Not Collapsed After Two Years of Cultural Revolution," in J. S. Prybyla (ed.), *Communism at the Crossroads* (University Park, Pa.: The Pennsylvania State University Press, 1968).

<sup>2</sup> Albert P. Blaustein, *Fundamental Legal Documents of Communist China* (South Hackensack, N.J.: Fred B. Rothman & Co., 1962), and F. Kalinychev, "Democracy and Legality," *Izvestia*, February 12, 1967, p. 4.

<sup>3</sup> Jan S. Prybyla, "The Economic Cost," *Problems of Communism*, March-April 1968, pp. 1-13.

When all the interesting but uninteresting, China's fundamental problem is seen to be what it has always been: how to feed and clothe a growing population. The economic answer to this problem lies in modernization, that is, the breaking out of the limits imposed on productivity by traditional methods of production, and the application of modern science and technology to the economic process. There are various ways in which this can be done. However, because the margin between food and mouths to feed is extremely narrow, the range of options is for all practical purposes restricted to one: the development of agriculture. During the relatively pragmatic period, 1961-1965, the Chinese Communists recognized this constraint and applied themselves to promoting agriculture and industries directly serving agriculture, including light industries supplying the peasants with consumer goods. The importance of this sector is, of course, further enhanced by the fact that about 80 per cent of the Chinese people derive their living directly from the soil. Help from abroad must for the time being be ruled out.

There are two hard figures to go on. The first is the 1953 population figure of 583 million, the second is the grain output figure for 1957 which reads 185 million metric tons. Both figures seem reasonable and they have been repeatedly endorsed by official China. The rate of natural population increase since 1953 is subject to dispute. Estimates range from 1.4 to 2.5 per cent per annum.<sup>4</sup> If the lower rate is taken, China's population in 1957 would be 615 million. The 2.5 per cent rate is probably too high. Taking a more reasonable rate of, say, 2 per cent per annum, the 1957 population would be 631 million. Assuming a 1957 population of 615 million and a domestic grain output of 185 million tons, the per capita grain availability in 1957 works out at 0.3 tons. If the 2 per cent rate is assumed, the per capita grain availability in 1957 would be 0.29 tons.

Now, if we assume that the average rate of population increase from 1953 to 1967 was 1.4 per cent per year, China's population in 1967 would be 707 million (and 770 million, if the 2 per cent per annum rate is assumed). Western estimates show that grain output in 1967 was 190-200 million metric tons.<sup>5</sup> To this must be added 5 million metric tons of imported grain, giving either 195 or 205 mil-

lion (707 million) and the higher grain availability figure (205 million tons), the per capita grain availability in 1967 works out at 0.29 tons. If the higher population figure is taken (770 million) together with the higher grain figure (205 million tons), the result is a per capita grain availability of 0.27.

All this may sound involved, but the conclusion is simple: per capita grain availability in China was practically the same in 1967 as in 1957, and this on the most favorable assumptions. There appears to have been no visible improvement. It should be noted, of course, that the fact that the Chinese Communists have managed to keep up with population growth is in itself an achievement not shared by all underdeveloped countries. On the other hand, the result should be qualified at least in three ways.

The 1967 harvest was exceptionally good. In fact, the cultural revolution has so far unrolled in good weather, unlike the great leap forward. There are indications that in the last two years water conservancy projects have been neglected and that there has been an increase in illegal chopping down of trees by peasants. One is inclined to assume that the Chinese have not yet won their age-long battle against the elements, and that any serious adverse change in weather is likely to affect agricultural output in much the same way as it did in the past.

Grain distribution in 1957 was probably better than in 1967. One of the known effects of the cultural revolution has been the disruption of rail transport. It is possible, therefore, that local shortages of grain have developed and that this may, in turn, have repercussions on labor productivity and the production of livestock.

There have been reports of widespread theft from storage bins and of illegal distribu-

<sup>4</sup> R. M. Field, "How Much Grain Does Communist China Produce?" *The China Quarterly*, January-March, 1968, pp. 105-107; L. D. Tretiak, "Population Picture," *Far Eastern Economic Review*, April 4, 1968, p. 14.

<sup>5</sup> The 1957 figure for population is based on the 1953 census. The 1957 figure for grain output is from *Ten Great Years*, (Peking: Foreign Languages Press, 1960), p. 119. The 1967 grain figures are estimates by O. L. Dawson cited in E. F. Jones, "The Emerging Pattern of China's Economic Revolution," in *An Economic Profile of Mainland China* (Washington: Joint Economic Committee, U.S. Congress, 1967), Vol. I, p. 93; The Economist Intelligence Unit, *Quarterly Economic Review: China, North Korea, Hong Kong*, April, 1968, p. 7; and E. F. Jones, *op. cit.*, p. 93. For further discussion of Mainland China's population problem, see the article by Thomas Dow, Jr., in this issue.

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tion of grain to peasants by officials opposed to the Maoist line. It is also possible that the quality of storage has suffered and that, therefore, loss of grain in storage has been higher than in 1957.

One could validly object that grain availability is only one measure of food supply, and that there are other commodities which should be taken into account. The United Nations Food and Agricultural Organization and other agencies have tried to quantify the problem in face of official Chinese silence, but the results are at best tentative. It is possible to say, for example, that rice output, which was 86.8 million metric tons in 1957, reached about 88 million tons in 1966, that soybeans, which were at 10 million tons in 1957, reached perhaps 11 million tons in 1966, and that is all.<sup>6</sup> It is possible that the increase in the output of grain crops and other crops was due in part to increased per acre yields—which would be reasonable in view of the increased application of chemical fertilizers—but the evidence at this stage is rather uncertain.

The overall conclusion which emerges is that a per capita grain availability of 0.3 metric tons or thereabouts represents a satisfactory present level, but that it will be increasingly difficult to maintain this level in the future unless (a) a determined effort is made to raise per acre yields, extend the cultivated area and keep floods and droughts in check, and (b) the natural population increase is brought under control. This demands some hard thinking unhindered by dialectical mysticism. There seems to be, frankly, very little room left for the kind of ideological calisthenics which the Chinese have enjoyed for the last three years.

A final note about clothing, which means primarily cotton. The Chinese these days are not given to conspicuous consumption in the matter of apparel. The millions are daintily but cleanly dressed. Cotton output appears at present to be inadequate to cover anything but the most modest requirements of domestic consumers and state exports. Total cotton production in 1957 was 1.64 million metric tons. By 1966, it had probably declined to 1.3 million tons.<sup>7</sup> If, as the Chinese claim, cotton output in 1967 was better than in the previous year (let us assume a 20 per cent improvement), it may now be roughly back where it was in 1957.

And so in this area too, there is little room

rather an urgent need for economic rationality, as Mao's Communist opponents have repeatedly said.

### FOREIGN TRADE

China's foreign commerce is the one sector about which the outside world has relatively reliable information, simply because it is possible to get at trade figures issued by China's partners. The country's total imports and exports are in the \$3-\$4 billion range, which is not very much by world standards, but is crucial for China. Again, shorn of interesting but somewhat irrelevant incidentals, foreign trade is important for the Chinese because it enables them to get chemical fertilizers and chemical plants and some industrial equipment which they lack, as well as wheat to fill the gap between inadequate and minimum nutritional standards. The chemicals, plants and wheat come overwhelmingly from the Western industrial countries and Japan. Australia, Canada, Argentina and France are the major wheat suppliers. A million tons of imported wheat costs the Chinese \$50-\$60 million in hard currencies, so that the annual expenditure on this item runs these days into some \$250-\$300 million.

Since the wheat deals are settled in cash or on a short-term credit basis, the Chinese have to be very careful about their foreign exchange reserves and about the way their trade balance shapes up each year. What China's foreign exchange (i.e., hard currency reserve) position is at present, is anybody's guess, but there are clues.

The Chinese have at all times scrupulously settled their foreign debts, even in the face of unfraternal provocation by the Soviets. They have paid promptly and in full, thus establishing for themselves a good name, if not a credit rating, in the world. Mainland China today has no outstanding debts, except the usual short-term ones, which are settled in the normal way.

To pay for essential imports, the Chinese have made a determined effort to promote exports of agricultural commodities (e.g., rice) and light industry products (e.g., cotton fabrics, cement, simple consumer goods).

China's foreign trade balance (commodity account) has usually been in slight surplus.

<sup>6</sup> E. F. Jones, *op. cit.*, p. 94 and Economist Intelligence Unit, *op. cit.*, Annual Supplement 1968, p. 5.

<sup>7</sup> *Ibid.* Cf. *China News Analysis*, (Hong Kong), No. 691, January 12, 1968, pp. 1-7.

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In this way, a small inflow of foreign currencies has been assured over the years.

An important source of foreign exchange has been China's trade with Hong Kong. The Chinese supply most of the goods and services (including water) which the Hong Kong population needs daily and buy very little from the colony. The surplus is settled by Hong Kong in pounds sterling.

Invisible payments (i.e., the services account), such as freight and insurance and the servicing of loans, are settled by hard currency remittances from overseas Chinese. It is estimated that overseas Chinese remit about \$150 million to Mainland China every year, although the amount has no doubt fluctuated and has probably dropped to half that sum in each of the last three years.

In some years, recourse has been made by the Chinese to bullion sales, especially of silver. From 1959 to 1962, China sold in London about \$50 million worth of bullion, and there have been no sales since. In 1965 and 1966, the Chinese bought some gold in London, possibly as a hedge against the expected devaluation of the British pound, in which China's foreign exchange reserves are mainly held. China did not join in the rush on gold at the end of 1967 and in early 1968.<sup>8</sup>

Since the early 1950's, but especially after the break with the Soviet Union, the Chinese have extended credits to various non-Communist developing countries. Most of these loans have been tied to the delivery of Chinese-made goods, although there have been a few instances of emergency foreign exchange loans. As a rule, the loans are interest-free and directed to specific projects in the beneficiary countries.

One of the disturbing side effects of the cultural revolution has been a decline in Chinese exports and a concurrent rise in imports, resulting in a trade deficit of some \$50 million in 1966 and about \$200 million in 1967. The drop in exports is probably traceable in the first place to disruption in Chinese ports and confusion on the railroads, and also to production problems in industry. Less significantly, the cultural goings-on have strained China's relations with a number of trading partners, including Hong Kong.

Because of the continuing need to import wheat (in 1968 wheat imports are likely to exceed 6 million tons), there is here again no room for ideological exuberance. Most West

European countries are eager to trade with Mainland China. Whether their eagerness will be rewarded depends to a considerable extent on China's ability to put her own house in order quickly. Even Mao Tse-Tung, in his brief spells of economic rationality, has come around to this view. A Red Guard poster in Canton quoted him as saying that

this nationwide disorder, including military disorder, is to occur for the very last time. After that, the nation will return to peaceful order, and the world will once more be in the hands of revolutionary rebels. The Central Government this time deliberately allows the existence of this nationwide disorder.<sup>9</sup>

There is a *non sequitur* in this (i.e., the revolutionary rebels are the agents of disorder), but it is at least more sober than the statement made by Wu Fa-hsien, Commander of the Air Force, in August, 1967: "in implementing Chairman Mao's directives we must completely disregard whether we understand them or not."<sup>10</sup>

## INDUSTRY

Industry, as well as agriculture, has been plagued throughout 1967 and the better part of 1968 by problems of labor discipline. The authority of professional managers and local government officials in charge of plants, offices and farms has been undermined, and in numerous instances the professionals have been replaced by inexperienced mixed committees of workers, rehabilitated cadres and the military. In addition, the workers have been torn by factional disputes, some siding with the Maoist revolutionary rebels, others with the anti-Maoist officials. By the latter part of 1967, the original issues had become blurred; personal vendettas appear to have been at least as important and frequent as ideological positions in causing clashes in factories and offices. The summer months of 1967 were especially violent and bloody; armed clashes were reported daily from most

<sup>8</sup> J. S. Prybyla, "Communist China's Foreign Exchange," *Queen's Quarterly*, Winter, 1965, pp. 519-527; Economist Intelligence Unit, *op. cit.*, (Annual Supplement, 1968), p. 11; *China Trade Report*, monthly issues.

<sup>9</sup> Quoted in *Union Research Service* (Hong Kong), January 19, 1968, p. 80 from *Red Guards* (October 23, 1967) a newspaper edited by the Red Guard Combat Unit of the 4th Field Army, Red Guard Canton General Headquarters.

<sup>10</sup> Quoted in L. D. Tretiak, "Less Fighting Talk," *Far Eastern Economic Review*, January 11, 1968, p. 46.

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industrial centers, with the army intervening now on this side, now on that.<sup>11</sup> Instances of absenteeism and resort to go-slow tactics have often been mentioned in press, radio and wall poster reports.

It seems fairly clear that industrial production was little affected by the early ideological and power struggle phases of the cultural revolution in 1966. One gets the impression that output of most major industries in that year was somewhat better than in 1965, although this is exactly what it says: an impression. The Chinese have published no industry-wide production figures, and Western estimates are based on scattered information from various plants and localities and on the general tenor of the reports. It is possible that in 1966 China produced about 10 million tons of crude oil (1.5 million in 1957, and about 8 million tons in 1965), perhaps 40 million tons of iron ore (16 million tons in 1957), perhaps as much as 12 million tons of steel (up a million tons from 1965), and about 250 million tons of coal and lignite (130 million tons in 1957, and perhaps 210 million tons in 1965).<sup>12</sup> The figures, to repeat, are informed guesses and the most one can say is that in 1966 there was no discernible evidence of an industrial crisis, and probably some improvement.

The picture changed radically in 1967, after the cultural revolution was carried into the economy. A new note of urgency and worry was struck in Mainland reports, side by side with the usual references to "great upsurge" and "unprecedented achievements." A socialist recession appears to have developed rapidly, gathering momentum as the troubled months dragged on. The situation seems to have deteriorated further in 1968, as the longer-term effects of the cultural upheaval began to be felt, chief among them the lack of competent leadership at the plant level, and worker restlessness.

The signs pointing to a deteriorating situation in industry may be summed up as follows:

1. In the winter of 1967-1968 a serious coal shortage developed partly because of fights, skirmishes, riots and strikes in coal mines. At the Lungmen colliery in Loyang, for example, "civil war" had raged for six months prior to February, 1968. Similar trouble had apparently hit the Fushun collieries in Liaoning Province, a major source of coal for the key Anshan steel works. Fac-

tionalism and anarchism reigned in the coal mines of Shansi Province. Since China is almost wholly dependent on coal for the running of her industry and railroads, shortages in this sector were bound to have adverse repercussions throughout the industrial economy.<sup>13</sup>

2. There have been practically no reports in 1967 and the first half of 1968 from some of China's most important industrial areas of Szechwan and Kansu. Even during the cultural revolution, when information of any kind was scarce, good performance would have been praised to the skies as a manifestation of the inspirational power of Mao Tse-tung's thought. A similar information blackout was imposed on the once much vaunted Taching Oil fields. For about two years previous to 1967, Taching and the "Taching spirit" were the themes of a mass propaganda campaign illustrating the economic benefits to be derived from Mao study. It is an interesting comment on the sort of data one gets out of China these days that, in spite of millions of words written on the subject of Taching, the field's exact location is not known to this day.

3. Anarchism, factionalism, groupism, sectarianism, "mountain-topism," and all the other sins attributed to those who oppose the cultural revolution, have been mentioned in connection with the Anshan steel works and in the steel city of Wuhan. A month after the installation of a Municipal Revolutionary Committee in Wuhan (March, 1968) "acute class struggle" was still being talked about on the radio and in the press.

4. Urgent calls to "make revolution thriftily" were being broadcast in the spring and summer of 1968. These appeals were addressed primarily to factories and farms.

5. Railroad transportation has been seriously disrupted in 1967 by strikes, sabotage and pitched battles between warring factions of railroad workers and between workers and students. Particularly disturbing for the Chinese has been the paralysis which gripped the important railway junction of Cheng-

<sup>11</sup> See, for example, reports from the Chinese press in *Union Research Service*, January 16, 1968, p. 57 ff.

<sup>12</sup> *Ten Great Years*; also Arthur G. Ashbrook, "Main Lines of Chinese Communist Economic Policy," in *An Economic Profile of Mainland China*, Vol. I, p. 25; R. M. Field, "Chinese Communist Industrial Production," in *op. cit.*, Appendix C, Table 9.

<sup>13</sup> *China News Analysis*, No. 697, January 23, 1968, pp. 1-7.

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been reported, if in veiled language.<sup>14</sup>

6. Most analysts seem to agree that the crucial chemical industry has been affected by disruption in supplies and by labor discipline problems. Almost complete silence has surrounded the cement and construction industries for months.

It is reasonable to assume that one of the major issues in dispute between the Maoists and their opponents—between romantic, guerrilla Communists and the party and government bureaucrats, technicians, and managers in charge of the day-to-day conduct of economic affairs—has been and remains to this day the question of economic incentives. Beneath all the shouting and pushing, there is the unresolved problem of feeding and clothing the millions.

The Maoist utopians believe that increases in production and productivity are a function of the political will, that asceticism and unshakable political faith can literally move mountains, that apparently insuperable problems can be solved if only the spirit is willing. Material incentives, the normal human desire for a better life now, are seen by these people as dangerous manifestations of petty bourgeois flabbiness.

The Communist pragmatists deny this and see in it an invitation to disaster. The dividing line between the two groups is perhaps not clear, but it is there. From a violent struggle at the top of the Communist pyramid, the cultural revolution has in the

last two years moved to the basic issues of the people's livelihood, and has increasingly become a question of physical survival. The gap between minimum material needs and availabilities is still being met partly by imported grain, but more and more by a leftist philosophy of poverty which finds in destitution and self-denial the supreme human virtue.

The trouble is that even the slightest manifestation of empiricism, in the state of China's present madness, is branded as Soviet-type revisionism. The time to reverse gear is now no longer an academic question; it is an absolute necessity if so-called socialism in China is to survive, and beyond that, if China is not to plunge once again into bitter internecine warfare.

<sup>14</sup> Colina MacDougall, "Nothing to Boast About," *Far Eastern Economic Review*, April 25, 1968, pp. 221-223.

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CHINA REPORTING SERVICE  
18 September 1968

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# "Bumper Crop" Claims Doubted

PEKING'S CLAIMS of "bumper" harvests of early rice have been received with considerable doubt by some qualified agricultural observers. They point out that the term "bumper" does not rank very high on the scale of past Chinese harvest claims and may be an attempt to cover up a mediocre, if not poor, crop.

Conspicuously absent, so far, has been any comparison with previous years. And unlike last year's early rice harvest claims

no mention has been made of expanded acreage or increased unit yield. Additionally, provincial reports on the early rice harvest have been similarly vague and stressed successes of various communes and brigades rather than province-wide increases.

These observers believe that this year's actual production of early rice, because of severe weather and other problems, is somewhat below the 1967 crop.

Rice is the staple food for most of the Chinese people. Early rice harvests in South and Central China and the central-south coastal regions are grown yearly—

usually account for about 15 percent, or 25 to 30 million metric tons of China's total annual grain production.

## Floods, Frost, Drought

New China News Agency (NCNA) claimed that "bumper" rice crops had been collected in Kwangtung, Kiangsi, Chekiang, Hunan, Hupeh, Anhwei and Kiangsu provinces and in Shanghai municipality. These main early rice growing areas together account for about 80 percent of early rice production.

Although NCNA claimed the "bumper" early rice crops followed a record throughout the country last year, the official

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news agency also reported that "drought and a cold spell delayed seed germination in some areas in Kiangsi, Hunan, Hupeh, Szechwan and Anhwei provinces." NCNA added that "part of the early rice in Kwangtung, Fukien, Kiangsi and Hunan provinces suffered as a result of floods" (see chart).

Although NCNA glossed over the severe weather problems, Kwangtung, the most important early rice province, suffered drought and frost at the time of spring transplanting plus torrential rains, serious flooding and a lack of sunshine during normal grain filling and maturing stages.

#### Worst in Memory

Earlier, official provincial radio broadcasts had reported that the summer floods in some provinces this year were the worst in living memory. In Kwangtung province alone, for instance, more than 100,000

soldiers and people were mobilized to battle floods.

Drought conditions were also reported by the official press from Inner Mongolia, Heilungkiang, Shantung and Honan provinces, mainly in the northern part of China (see chart).

Along with the absence of harvest comparisons with previous years, there was also a conspicuous silence on expanded acreage or increased unit yield, indicating that there was little, if any, acreage increase over 1967.

Although NCNA also reiterated the claim of "bumper" harvests of winter crops, observers believed they were no better than the mediocre 1967 harvests. In 1967, China's total early and late rice production was estimated at 86,400,000 metric tons. Taken together, the latest harvests of winter crops and early rice seem to have definitely fallen below those of last year.

SOUTH CHINA MORNING POST  
18 September 1968

SEVERE rains, floods, frost and drought have hurt crops in mainland China.

## Farm Problems Plague China

ONE OF THE most serious and persistent economic problems for China's leaders is how to increase the populous nation's agricultural productivity.

The acuteness of the problem becomes evident when it is realized that agriculture in China accounts for almost 50 percent of the national income, employs about 80 percent of the labor force and provides a major proportion of the country's exports.

Additionally, the size of the yearly harvest vitally affects consumption, industrial production, capital investment, revenue, foreign and retail trade and other economic variables.

An estimated 11 percent of China's land area is now cultivated, and about 40 percent of it is probably double-cropped. The total sown area is roughly equal to that in the United States. However, almost all tilled land is located in the eastern half of the country, where there are sizable areas with 50 percent or more of the land under cultivation.

These areas include nearly all of the North China Plain and the valley of the lower Yangtze below Wuhu as well as parts of the Manchurian Plain and the Szechwan Basin. The amount of eastern China varies widely.

But it generally averages below 30 percent, and it typically occurs in sinuous and relatively narrow bands along the river valleys and on the immediately adjacent slopes.

#### New Lands Opened

The cultivated area of China has fluctuated within relatively narrow limits during the past 15 years. Although new land has been brought into cultivation it apparently has not been sufficient to offset the losses caused by greatly expanded urban and industrial areas, as well as the construction of a large number of reservoirs, and a number of physical factors such as salinization and erosion.

Most of the new land has been opened in Northeast China and in Sinkiang by state farm and military resettlement projects. Although a potential for opening new land for cultivation remains, most land that is not already in use is in marginal agricultural area. Aridity, altitude, short growing season, and other physical factors discourage farming there.

A reluctance of the Chinese Communists to invest in costly, large-scale land reclamation projects also has limited the ex-

pansion of land under cultivation. Most plans for significant increases in agricultural output, therefore, have been geared to improving yields.

#### Basic Problems

The further expansion of irrigation and multiple cropping may increase output. However, a substantial improvement in agricultural productivity appears to depend more on the greater use of chemical fertilizers and the use of improved seed.

Basic to all plans for increased agricultural production is the need for better land management and coordination of the land and water conservancy programs.

#### Rice Dominates South

The most significant division in China is that which separates the rice-growing southern provinces from the northern provinces that specialize in wheat and small grains. Within these two broad groups a large variety of other crops is grown.

Rice is dominant almost everywhere in South China, where about 35 to 80 percent of the land is irrigated. In this part of the country, the gen-

erally accounts for 50 percent or more of the area sown to food crops. Double-cropping of rice is dominant south of the Nan Ling River in Kwangsi, and in southern Fukien.

To the north, in Szechwan, a combination of corn and sweet potatoes is extensively cultivated. Corn is a particularly important crop for the non-Chinese hill people of Yunnan and Kweichow because it suits the cooler temperatures and shorter growing season of the uplands.

The Yangtze Rice-Winter Wheat Region is a zone of agricultural transition between the North and the South. The northern boundary of this region — approximately the Hwai Ho — marks the northernmost extent of rice as an important crop. Similarly, the southern boundary roughly marks the southward extent of wheat as a major crop, even though some wheat is grown throughout South China.

### Wheat Dominant in North

Wheat is the most important crop in the three agricultural regions of North China. In the Winter Wheat-Kaoliang Region, where the annual precipitation ranges from 20 to 30 inches, secondary crops include millet, corn, soybeans, and sweet potatoes. In the drier west, hardier and more drought-resistant secondary crops, such as millet, oats, and buckwheat, are commonly planted.

To the northwest, increasingly severe winters and less rainfall mark the transition zone between areas growing winter and spring wheat.

Cotton and tobacco are important crops in North China. Cotton is widely grown in the wheat regions — particularly in the western half of the North China Plain where well-irrigation is possible — and in the valleys of the Wei and Fen rivers in Shensi and Shansi provinces. Hopei is the leading cotton-producing province of China.

Tobacco, though of lesser importance, is planted throughout the wheat regions; Honan is the leading producer.

### Korean Pioneers

The Koreans who inhabit the Yen-chi area near the border with North Korea have pioneered the cultivation of rice in the Northeast. Rice culture in a few additional areas is being encouraged. Other crops include a small amount of cotton in Liaoning and sugarbeets in Kirin and Heilungkiang.

Agriculture in the area of far western China is extremely limited. The land mainly consists of either high barren plateau and mountain country or desert basins that are hostile to all crops. Exceptions occur in Sinkiang where highly productive oases rim the great basins of the province and where some land has been reclaimed during the past decade.

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22 November 1968

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# China's Agriculture Badly Disrupted By Weather and Cultural Revolution

By Stanley Karnow  
Washington Post Foreign Service

HONG KONG, Nov. 22—Agricultural production, the backbone of Communist China's economy, appears to have suffered this year from a combination of bad weather and the cumulative disruptions caused by Mao Tse-Tung's tumultuous Cultural Revolution.

Torrential rains that flooded the southern Chinese provinces of Kwangtung, Kiangsi and Fukien this spring and summer seriously damaged rice crops in those areas, while drought adversely affected the wheat-growing regions north of the Yangtze River.

Meanwhile, months of turmoil evidently obstructed the manufacture and transport of tools, chemical fertilizers and other farm supplies and, perhaps more significantly, weakened the regime's rural administration, prompting peasants to ignore or defy Peking's directives.

here estimate, China's output of cereals may have dropped as much as 5 percent below the 1967 harvest

of some 190 million tons. While the likelihood of famine is considered remote, chronically deficit provinces like Hopei, Shansi and Shantung, as well as the large coastal cities, could face food shortages later this winter and next spring.

### Renewed Instability

These shortages may contributed to renewed political instability, particularly at a time when moderate military and civilian leaders now in charge of most of the country are striving to restore law and order after years of turbulence.

This year's production setback also underlines the fact that the Chinese Communists, despite all their hopes for becoming a major power in the foreseeable future, are still losing the crucial long-range race between food availability and population growth.

During the past decade,

breakdown in the rural bureaucracy, and this has led to two problems that, judging from authoritative

Chinese reports, are critical at the moment.

Agriculture officials, bewildered or dismayed by the chaotic events, have apparently shed their responsibilities, with the result that no real authority exists in many farm regions.

The bureaucratic breakdown has reduced the constraints on peasants to sell their cereals to the government. A recent radio broadcast from North China, for example, warned against "class enemies" who are "falsifying production records, distributing grain secretly, keeping more for themselves ... in order to disrupt procurement."

Without local leaders assigning them priorities, peasants in some areas have been concentrating more on their private gardens than on "collective" crops like rice and wheat. They have also neglected to maintain irrigation facilities, collect manure and perform other

Apparently in an effort to discipline and mobilize lax peasants, officials in a few parts of the country have reportedly taken steps to eliminate the concessions made to the rural population during the economic recession that followed the collapse of the Great Leap Forward, Mao's 1958 attempt to modernize China rapidly.

At that time, peasants were allowed to have small private plots and sell their produce at free markets as a way of boosting production by providing incentives.

Now, according to reports from a few counties in nearby Kwangtung Province, peasants are being deprived of their private tracts of land and ponds in which they were permitted to breed fish on their own.

In the view of specialists here, this trend towards intensive collectivization probably represents an excess of zeal on the part of local cadres rather than the beginning of a nationwide return to the policies of the Great Leap Forward.

Moreover, these specialists point out, it further suggests that Chinese agriculture is drifting in rudderless fashion, without guidelines and without any hope of achieving more than minimal improvements.

at least 20 per cent, and now probably totals more than 750 million.

In contrast, grain output has only increased about 8 per cent over the same period.

The lag in agriculture has created periodic scarcities of fibers, cotton, soybeans, oilseeds and other raw materials essential for Chinese industry or as export commodities to gain hard currency.

To feed their large cities, China's leaders are continuing to import roughly four million tons of wheat per year from Australia, Canada and France. These imports cost more than \$300 million dollars, or about 25 per cent of Peking's foreign exchange earnings.

#### Private Crops

At the same time, by permitting peasants to cultivate vegetables and raise livestock for private profit, the Communists have managed to compensate for the shortages of rice, wheat and other cereals.

But these temporary measures, while necessary for survival, are not likely to solve the country's farm problems. The main challenge for Peking is to contrive some kind of durable agricultural policy.

Most of the evidence reaching here indicates, however, that the divided Communist hierarchy is too preoccupied with politics at present to focus on economic planning.

Much of the current confusion stems directly from the Cultural Revolution,

which shattered administrative controls, paralyzed factories and railways, and spurred clashes between rival factions in many areas.

Among other things, shipments of chemical fertilizer from Japan and Europe were delayed at ports en route to their destinations. Inside the country, while industrial troubles undermined the production of farm equipment,

In several regions, peasants abandoned their fields to join the competing groups fighting in nearby towns, or took advantage of crumbling controls to black market their produce rather than turn it over to state purchasing agents.

One of the most debilitating effects of the disorder, however, has been the

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## Outlawed Private Enterprises Springing Up Throughout China

By Stanley Karnow

Washington Post Foreign Service

HONG KONG, Sept. 24—Private enterprises are emerging throughout Communist China, reflecting a widespread breakdown in central political and economic controls as a result of Mao Tse-tung's Cultural revolution.

These bootleg businesses include small and medium-sized factories—some employing as many as 100 workers—that produce glassware, leather goods, textiles, hardware, mechanical devices and other consumer merchandise.

Evidence available here indicates that increasing numbers of peasants are selling rice, wheat, edible oils, cotton and other agricultural commodities to free-lance intermediaries instead of to state purchasing agents.

Journeymen artisans are reported traveling through suburban and rural areas, constructing private houses and even transacting real estate deals.

While denounced officially as "reactionary" and "counter-revolutionary," these activities

are apparently tolerated or promoted by local Communist functionaries for two main reasons:

- Many low-ranking officials are said to be receiving bribes or a slice of the profits from these moneymaking ventures.

- Provincial industrial managers, anxious to boost production, are said to encourage illegal operations either to avoid red tape or because China's bureaucratic machinery has been paralyzed by the turmoil triggered in the Cultural Revolution.

This rise of individual enterprise apparently represents a growing lack of respect for Mao's rigorous brand of communism and an erosion of China's social fabric.

Analysts here suggest that it also mirrors an acceleration in the trend towards decentralization that began more than a decade ago.

China has already reached a stage at which, politically and economically, the provinces are stronger in the provinces than

in Peking and, to use the terms applied by British ex-

pert Audrey Donnithorne, the "cellular" rather than "monolithic" character of the country is coming out.

Also coming out, from all accounts, is the natural skill of the Chinese for improving and manipulating assorted business schemes while paying lip-service to ideology and structure.

#### Industries Camouflaged

In Shanghai, Canton and other cities, for example, the "underground" industries are often camouflaged, with the complicity of Communist Party cadres, as neighborhood factories originally sponsored in 1959 to enlist housewives and elderly or handicapped persons for productive labor.

Many of these industries raise capital by requiring, like cooperatives, that their workers invest in the illegal firm before they are given jobs. In many instances, workers joining these shops are unaware that they are breaking the law.

Materials are reportedly acquired

in many ingenious ways, some of them legal.

Tiny textile or knitwear factories in the back streets of Shanghai, for example, rely on dealers who buy raw cotton smuggled into the city by peasants, and small machine shops get tools filched from state-owned plants.

#### Black Market Sources

An accountant who arrived here recently from Canton said that his government electrical equipment plant regularly exceeded its production targets, delivered its quota of motors to the state and sold the surplus to black marketeers.

Much like New York telephone-booth brokers, these black market operatives function out of tea houses. Official purchasing agents, unable to obtain needed equipment through clogged government channels, often deal with shady expeditors.

One Cantonese craftsman, according to a reliable source, runs a thriving electrical repair shop with the help of relatives in Hong Kong, who send him wire, fixtures and light bulbs instead of cash remittances.

In the villages, peasants are evidently establishing unofficial handicraft enterprises. A newspaper in coastal Chekiang Province recently berated one farm brigade that had sold its draft animals to fi-

nance an enterprise and stole motors designed for irrigation pumps.

Another innovation in rural areas are groups of artisans, described officially as "underground construction teams," engaged in private contracting jobs.

A member of one of these teams in Kwangtung Province, who recently escaped to Hong Kong, said his nine-man group included bricklayers, electricians and carpenters, as well as a salesman.

According to the refugee, the salesman scouted the territory for customers and, on occasion, the team itself would buy a lot, construct a house and sell the whole package.

The team obtained its building materials on the black market. Official warnings against thefts of bricks, tiles

and cement from major construction sites suggests that many of these underground building groups exist.

This "capitalist restoration," as Peking calls it, is not only worrisome for ideological reasons. The regime appears to regard it as a refuge for all sorts of opponents of the established system.

Among the system's opponents are the thousands of urban youths now being shipped to the countryside, many of whom will slip back to the cities. Deprived of ration coupons and regular jobs, they can survive only by working in the industrial underworld.

Other private entrepreneurs, meanwhile, are being blamed for "economism," which in Chinese Communist jargon is the equivalent of Khrushchev's "goulash communism."